



ASIC

Australian Securities & Investments Commission

REPORT 219

Market assessment report: Reuters Transaction Services Limited

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About this report

This report summarises ASIC's sixth annual assessment of Reuters Transaction Services Limited (RTSL) under s794C of the *Corporations Act 2001* (Cth) (Corporations Act).

This assessment covers the period 27 July 2009 to 29 June 2010 (the assessment period).

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Previous reports on RTSL

RTSL was granted an Australian market licence for an overseas market on 28 July 2004.

Report number	Report date
REP 64	November 2005
REP 85	September 2006
REP 101	February 2008
REP 153	April 2009
REP 181	November 2009

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Key findings and recommendations

Key findings

- 1 ASIC is satisfied that RTSL has adequate arrangements for the supervision of its market in accordance with its obligations under s792A(c) of the Corporations Act.

Recommendations

- 2 We do not have any recommendations to make about RTSL's current supervisory arrangements.

A The assessment

Key points

ASIC conducts annual assessments of market licensees, such as RTSL, because it is required to do so under s794C of the Corporations Act.

The scope of our assessment must always include the obligations found in s792A(c), but we can include other Ch 7 obligations too.

We use the licensee's self-assessment reports, information from our previous assessments, our observation of the licensee's performance, market intelligence and other things to form a view of how well a licensee has operated its market.

Purpose and scope

- 3 Under s792A(c), a market licensee is required to have adequate arrangements for supervising the market, including arrangements for:
 - handling conflicts between the commercial interests of the licensee and the need for the licensee to ensure that the market is fair, orderly and transparent;
 - monitoring the conduct of participants on or in relation to the market; and
 - enforcing compliance with the market's operating rules.
- 4 ASIC is required to assess how well a market licensee complies with its obligations under s792A(c) at least once a year: s794C(2).
- 5 In addition, we are permitted to extend the scope of our assessment to review how well a licensee complies with any or all of its obligations under Ch 7: s794C(1).
- 6 This report covers the period from 27 July 2009 to 29 June 2010 (the assessment period).

Background

- 7 RTSL is a company incorporated in the United Kingdom that operates through its Geneva branch. The ultimate parent company of RTSL is Thomson Reuters Plc, since Thomson Corporation of Canada acquired Reuters Group Plc on 17 April 2008. RTSL was established to serve the foreign exchange markets by providing spot, forward and options matching products.

- 8 RTSL is authorised and regulated in the United Kingdom by the Financial Services Authority (FSA) as a Multilateral Trading Facility under the Markets in Financial Instruments Directive.
- 9 RTSL is also authorised to operate in several other jurisdictions, including Hong Kong and Singapore. RTSL is licensed as a money broker by both the Hong Kong Monetary Authority and the Monetary Authority of Singapore (MAS). RTSL is recognised by MAS as a Recognised Market Operator for the transaction product Thomson Reuters Fixed Income Trading. This electronic platform is also subject to oversight by the Hong Kong Securities and Futures Commission. RTSL recently obtained accreditation as an electronic order matching system from the Foreign Exchange Dealers Association India on 24 December 2009.
- 10 In Australia, RTSL operates its electronic multilateral trading platform (EMTP) under its Australian market licence (market licence). RTSL's EMTP facilitates trading by Australian participants in foreign exchange contracts, foreign exchange and interest rate derivatives and bonds.
- 11 RTSL recently added Non Deliverable Forwards as an asset class to its matching system. This asset class is first targeted at Latin America and the United States, with the intention to cover Asia and rest of the world in due course.
- 12 RTSL is in the process of replacing the matching host for its electronic foreign exchange trading platform, a process that is scheduled to be completed through the third quarter of 2010.
- 13 The Australian participants include the Reserve Bank of Australia, Australian authorised deposit-taking institutions, subsidiaries of foreign banks and professional investors. In Australia, RTSL offers electronic platforms, which include Dealing 3000 Spot Matching, Dealing 3000 Forwards Matching, Non Deliverable Forwards Matching, FX Options Matching, Matching for Interest Rates, Reuters Trading for Foreign Exchange, and Thomson Reuters Fixed Income Trading. RTSL's main business in Australia currently centres on its foreign exchange spot and forwards matching products, with 30 named Australian participants.
- 14 The annual traded volume on RTSL's Australian foreign exchange spot and forwards matching products totalled 3,395,478 in 2009, which comprised 5.38% of RTSL's international volume. This percentage represented a decrease in traded volume of 1.03% over the previous year.

Regulation of RTSL in Australia

- 15 In Australia, RTSL is registered as a foreign company under the Corporations Act and is an overseas-based market operator. RTSL was granted its market licence to operate its EMTP under s795B(2) of the Corporations Act on 28 July 2004. This allowed RTSL to provide transaction trading in foreign exchange spot, forwards, options and interest rate derivatives. The original licence was varied, commencing 1 November 2005, to extend the financial instruments offered by RTSL to include various types of bonds and to extend participants to include professional investors.
- 16 The criteria under s795B(2) includes a requirement that the regulatory regime of the foreign country is sufficiently equivalent in terms of investor protection and market integrity outcomes to the Australian regulatory regime. Consequently, while RTSL is required to comply with each of its obligations under the Corporations Act and any conditions imposed on its licence, we place a degree of reliance on the regulatory regime imposed by the FSA on RTSL.
- 17 RTSL requires all Australian participants to hold an Australian financial services (AFS) licence that permits them to trade in products equivalent to those that can be traded on RTSL's market, unless the participant is exempted under Australian law from the requirement to hold an AFS licence to participate in the market.
- 18 RTSL's market licence is available on ASIC's website at www.asic.gov.au/markets.

Our methodology

Our assessment process

- 19 A market licensee's obligations are ongoing. Whether it is likely to comply with its obligations in the future cannot be judged merely by reference to its past compliance.
- 20 We therefore use the assessment process to:
- reach conclusions about the adequacy of the arrangements a market licensee has in place for supervising its market in accordance with its obligations under the Corporations Act at the time of the assessment; and
 - identify issues, which in our view need, or may need, to be addressed to ensure ongoing compliance.

What we focused on for this assessment

- 21 Our focus in this assessment was to review how well RTSL complied with its ongoing supervisory and reporting obligations under its Australian market licence and the Corporations Act.

What we considered

- 22 In conducting our assessment we considered:
- information we received from and about RTSL in the ordinary course of our dealings with the licensee;
 - RTSL's annual regulatory report required under s792F;
 - information from the media, RTSL's website and other sources;
 - RTSL's six-monthly licence condition reports to ASIC;
 - information sought from RTSL for the purpose of this assessment;
 - information from the FSA about RTSL; and
 - RTSL's financial report for the year ended 31 December 2009.

Communication with the foreign regulator

- 23 In assessing an overseas licensee's compliance with its obligations under s792A(c) of the Corporations Act, we place a degree of reliance on statements by the licensee's home regulator in regard to the standing of the licensee. RTSL is part of the regulated population of firms that is not 'relationship managed' by the FSA. This is because RTSL is assessed as a 'low impact' firm by the FSA, which has a direct bearing on the level of supervision carried out. For further information on the impact and probability assessment, see the *FSA Handbook* (www.fsahandbook.info/FSA/html/handbook/SUP).
- 24 We received confirmation from the FSA that no adverse information about RTSL has been brought to the FSA's attention.

Consultation

- 25 Our findings are set out in Section B of this report. RTSL has had the opportunity to view and comment on the factual accuracy of a draft version of this report. Where appropriate, our findings in Section B reflect RTSL's clarifications.

B Our observations

Key points

We have considered the adequacy of RTSL's arrangements for supervising its market, including arrangements for:

- handling conflicts between the commercial interests of the licensee and the need for the licensee to ensure that the market is fair, orderly and transparent;
- monitoring the conduct of participants on or in relation to the market; and
- enforcing compliance with the market's operating rules.

RTSL did not make any substantial changes to its supervisory arrangements during the assessment period.

We do not have any recommendations to make about RTSL's current supervisory arrangements.

We also note that RTSL has complied with its reporting obligations under the Corporations Act.

Supervisory arrangements

- 26 We conclude that RTSL has adequate arrangements for the supervision of its market in accordance with its obligations under s792A(c).
- 27 Our conclusion is based on the following observations drawn from information gathered during the assessment process, our observations from our ongoing correspondence with RTSL, and the present operating conditions (including trading volumes and financial products traded on the market):
- RTSL confirmed that during the assessment period, arrangements for supervising the market had not changed and that no disciplinary action was taken against RTSL by the FSA;
 - the FSA confirmed that it had no information indicating the inadequacy of RTSL's arrangements for supervising the market; and
 - during the assessment period, nothing came to our attention to suggest that RTSL's supervisory arrangements are not operating properly.

Managing conflicts of interest

- 28 A description of RTSL's supervisory arrangements for handling conflicts of interest is set out in Section 2.1 of our first annual assessment of RTSL, *Market assessment report: Reuters Transaction Services Limited (REP 64)*, issued in November 2005.

29 Based on our review of all information at hand, and information provided by RTSL and the FSA, we are satisfied that RTSL continues to have adequate arrangements for handling conflicts of interest. Further, we are not aware of any conflicts of interest occurring during the assessment period.

30 The FSA has no information that would cause it to suspect or conclude that RTSL has not been meeting its arrangements for handling conflicts.

31 We note that RTSL does not hold client money or take principal positions.

Monitoring the market and conduct of participants

32 A description of RTSL's supervisory arrangements for monitoring the conduct of participants on or in relation to the market is set out in Section 2.1 of REP 64.

33 Based on our review of all information at hand, and information provided by RTSL and the FSA, we are satisfied that RTSL has adequate arrangements for monitoring the conduct of participants.

34 There were no investigations carried out into Australian RTSL participants during the course of the assessment period.

35 The FSA does not have any information that would cause it to suspect or conclude that RTSL has not been meeting its obligations for monitoring members' conduct.

36 RTSL has enhanced its monitoring capabilities with an electronic monitoring system which is now fully functional. This system monitors spot and forwards foreign exchange orders.

37 RTSL has also introduced a new rule that subjects input orders to a minimum quote life of 250 milliseconds. This is intended to maintain an orderly market by curtailing the speed at which autoquote or black box systems input orders into the market.

38 RTSL confirmed that it suffered no disruption or other consequences from the 6 May 2010 'flash crash' in the United States.

Enforcing compliance with market operating rules

39 A description of RTSL's supervisory arrangements for enforcing compliance with the market's operating rules is set out in Section 2.1 of REP 64. We note that RTSL's arrangements for enforcing compliance with the operating rules have not substantially changed since our last assessment, *Market assessment report: Reuters Transaction Services Limited* (REP 181), issued in November 2009.

40 Participant breaches are referred to RTSL's Head of Regulation and Compliance. RTSL is required to notify the local regulatory authority of

certain breaches. No instance of an Australian participant breaching RTSL's operating rules has been brought to our attention.

- 41 On the basis of information available to ASIC and information provided by RTSL and the FSA, ASIC is satisfied RTSL has adequate arrangements for enforcing compliance with its operating rules.

Regulation of RTSL in the United Kingdom

- 42 We received information from the FSA about the regulation of RTSL during the assessment period.

- 43 The FSA advised us that it is not aware of any information or instances indicating the inadequacy of RTSL's supervisory arrangements. Further, the FSA advised it has not taken any disciplinary action against RTSL during this assessment period.

Reporting obligations

Annual regulatory report

- 44 We note that RTSL lodged its s792F annual regulatory report with ASIC in a timely manner with the required information.

Reports required by market licence

- 45 We also note that RTSL lodged its six-monthly reports with us on time and these contained the information required.

Rule amendments

- 46 RTSL has provided notices on rule changes in a timely manner and with sufficient information to satisfy s793D(3) of the Corporations Act.

Conclusion

- 47 Based on this assessment, we do not have any recommendations to make about RTSL's current supervisory arrangements.

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
ASIC	Australian Securities and Investments Commission
Australian market licence	An Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
Ch 7 (for example)	A chapter in the Corporations Act (in this example numbered 7)
Corporations Act	<i>Corporations Act 2001</i> (Cth), including regulations made for the purposes of that Act
EMTP	electronic multilateral trading platform
FSA	Financial Services Authority (UK)
market licensee	Holder of an Australian market licence
MAS	Monetary Authority of Singapore
RTSL	Reuters Transaction Services Limited
s794C (for example)	A section of the Corporations Act (in this example, numbered 794C), unless otherwise specified